

PROVIDENCE ECONOMIC DEVELOPMENT PARTNERSHIP, INC.

THURSDAY, MARCH 13, 2014

DRAFT LOAN COMMITTEE MEETING MINUTES

A meeting of the Providence Economic Development Partnership, Inc. (PEDP) Loan Committee was held at the office of the Department of Planning and Development, 444 Westminster Street, Providence, Rhode Island, in the 1st Floor Conference Room on March 13, 2014. The Loan Committee meeting was called to order at 12:24 P.M, with Gonzalo Cuervo presiding. Roll call of the members was conducted.

MEMBERS IN ATTENDANCE

Members of the Loan Committee in attendance included Gonzalo Cuervo Frank Benell, Doris Blanchard, and Donald Gralnek.

MEMBERS ABSENT

Members not in attendance were Manny Barrows, Renee Bailey and Carmen Diaz-Jusino.

STAFF MEMBERS IN ATTENDANCE

Staff members in attendance included: Stuart MacDonald, Director of Fiscal Operations, Department of Planning and Development (DPD) and Assistant Director, PEDP; Kathy Cosentino; Gail McGowan; and Arthur Speaks.

OTHERS IN ATTENDANCE

Others in attendance were Thomas Hoagland, PEDP contract underwriter.

Gonzalo Cuervo introduced Donald Gralnek, the Executive Director of the Providence Redevelopment Agency (PRA) as a new member of the Loan Committee.

MEETING MINUTES

The minutes of the November 14, 2013 PEDP Loan Committee meeting were submitted for review and approval. Upon a motion made by Doris Blanchard and seconded by Frank Benell, it was voted to approve the minutes of the November 14, 2013 meeting. Motion passed by unanimous vote.

REPORT OF THE ASSISTANT DIRECTOR

Stuart MacDonald stated that PEDP has received approval from HUD for RLF lending. We have been waiting for a long time. We have had our loan portfolio review. We are lending again and the RLF is open. There are five (5) loan applications on today's agenda. The HUD review is virtually complete and we are ready to move forward. We have solutions to the problems that have been cited. HUD will still have to review the loans if approved by the board of directors. We have a good relationship with HUD and know what they are looking for.

NEW BUSINESS

The first agenda item entertained by the Loan Committee under New Business was the loan request of Plainfield Auto Sales, Inc., Osman O. Garcia, 292 Plainfield Street, Providence, Rhode Island, 02909. Mr. MacDonald presented the request and began by stating that Thomas Hoagland, the PEDP contract underwriter prepared the loan request. The loan request, in the amount of \$150,000.00, will be used for working capital expenses and inventory, and for the acquisition of equipment. Total project costs are \$150,000.00. Mr. MacDonald provided a brief overview of the business, the eligible activity information, and the term of the loan. This loan will be funded through our RLF, which has a zero (0) cost of funds. There have been a few big loan payoffs and PEDP is sitting on about \$1.6 million, therefore we have a lot to lend but that does not mean that we will reduce our standards. Questions were raised regarding the accuracy of the income of the car sales, regarding the number of current employees and the number of new jobs to be created, and whether the jobs are permanent payrolled (W-2) employees. Questions were also raised as to the data listed in the financial statements and whether appraisals were conducted on the collateral being pledged. Mr. Hoagland responded that it appears that the existing cash flow is going to be

adequate. Mr. MacDonald responded that if the business does not create the jobs in the period of time involved, it is a default and we call the loan. We have made the monitoring more complicated; we get the payrolls at the loan closing. The collateral being pledged as security was questioned as was the company's other debt. Mr. Cuervo asked for a motion to approve the loan to Plainfield Auto Sales as presented. Upon a motion made by Frank Benell and seconded by Donald Gralnek, it was voted to recommend the approval of the loan request of Plainfield Auto Sales, Inc., in the amount of \$150,000.00, as presented. Motion passed by unanimous vote.

The next agenda item entertained by the Loan Committee was the loan request of Pioneer Shoppe, LLC, Natalie Morello, 253 South Main Street, Providence, Rhode Island, 02903. Mr. MacDonald presented the request. The loan term and eligibility was reviewed. The loan funds, in the amount of \$20,000.00, will be used for working capital expenses and for the acquisition of inventory. Total project costs are \$20,000.00. The loan request is for a second loan to this Borrower. The existing loan is current. Mr. MacDonald briefly reviewed the collateral being pledged as security for this loan. Questions were raised as to whether there is evidence that the Borrower could not get other funding and whether letters of denial have been submitted by the Borrower, to which Mr. Hoagland and Gail McGowan responded that they were unsure. Mr. MacDonald responded that it is not a strict requirement that we have the denial letters; if we can get it, so be it. We could make the denial letter a condition of the loan approval. Questions were also raised as to the business not being the owner's sole source of income, whether the principal can qualify as a new hire, and whether this business is a specialized boutique that has a niche market. Mr. MacDonald responded that the principal does qualify as a new hire. Mr. MacDonald noted that the Borrower has had a good payment history and that he wanted to go on record that Gail McGowan would be very happy if the loan is approved. Mr. Cuervo stated that he would entertain a motion to approve the loan request of Pioneer Shoppe, LLC. Upon a motion made by Doris Blanchard and seconded by Donald Gralnek, it was voted to recommend the approval of the loan request of Pioneer Shoppe, LLC, in the amount of \$20,000.00, subject to the submission of a bank denial letter. Motion passed by unanimous vote.

The next agenda item entertained by the Loan Committee was the loan request of Julian's Restaurant, (JRB, LLC), Randy Kass, Julian Fogue, and Brian Oakley, 318 Broadway, Providence, Rhode Island, 02903, in the amount of \$75,000.00. Mr. MacDonald indicated that he was removing this matter from the agenda due to it not being ready for presentation.

The next agenda item entertained by the Loan Committee was the loan request of Nikki's Liquor (DMR Enterprises, Inc.), Michael Iannozzi and David Iannozzi, 32 Branch Avenue, Providence, Rhode Island, 02904, in the amount of \$150,000.00. Mr. MacDonald presented the loan request. We had this loan application for a while and the Borrower just found a new location; their old location fell through. The PEDP funds will be used for the acquisition of equipment and inventory and for working capital expenses. The PEDP funds will not be used for any of the leasehold improvements. The total project costs are \$245,000.00. The business has not been profitable but there will be more space in the new location, which will make it profitable. Questions were raised regarding the incredibly slim margins for this business and whether they are usual for this industry. Mr. Hoagland stated that he was not familiar enough with the industry to know its margins. Mr. MacDonald indicated that margin and industry information can be obtained for the committee. Questions were raised as to whether the assessments provided were verified, which was answered by staff in the negative. Questions were raised regarding the salaries received by the principals, the current and new rent amounts and square footages, whether a P&L Statement was submitted for 2013. It was requested that a wage restriction be added to the loan documents to limit what the

principals may draw from the business or to require PEDP approval for any changes to what is being drawn. Upon a motion made by Doris Blanchard and seconded by Frank Benell, the loan request in the amount of \$150,000.00, was tabled subject to the submission of appraisals for both real properties being pledged as collateral as well as for the submission of updated financial statements for 2013.

The next agenda item entertained by the Loan Committee was the request of Isle Brewers Guild, LLC, Jeremy Duffy and Devin Kelly, 10 Charles Street, 1st Floor, Providence, Rhode Island, 02904, in the amount of \$1,400,000.00. Mr. MacDonald presented this agenda item. This matter is not on the agenda for a vote today; Mr. MacDonald just wanted to talk about the project and loan request. The project address was corrected to 489 Kinsley Avenue, Providence, Rhode Island, 02909 (a/k/a 4 Sims Avenue, Providence, Rhode Island). The business is a start-up brewery. The loan request is in the amount of \$1.4 million. The whole venture is in the amount of \$8 million, of which \$4 million is equity and \$4 million is debt, of which the applicant is asking PEDP for \$1.4 million. Today's discussion was more from a philosophical standpoint than an approval standpoint to ascertain the committee's appetite to entertain this loan request. It was indicated that the principals came in to talk to the Providence Redevelopment Agency (PRA) a year ago at which time a loan was discussed. The principals are buying a vacant property. PRA will have a first position mortgage on the property. PEDP will have a collateral position on the business equipment. Mr. MacDonald indicated that it may be likely that PEDP would have to have a pari passu position with another lender but would not go into second position. The Borrower has not been successful in obtaining bank, 504 or state financing because it is a start-up. The committee expressed that this was a matter to be considered by the full board of directors. Mr. MacDonald indicated that no vote was required in connection with this agenda item. The matter is to be referred to the full Board of Directors.

The next agenda item entertained by the loan committee was the reporting of the discussion by the PEDP Board of Directors regarding the approval of second-round funding for the IIP Program. Mr. MacDonald presented this matter. There was a discussion with the board to approve second-round funding for the program, which was not approved. An IIP Sub-Committee was formed, which is meeting next week.

The next agenda item entertained by the Loan Committee was the reporting of the approval granted by the PEDP Board of Directors of the request of Vicmar Communications, Inc. for PEDP to subordinate its mortgage position to the refinancing of senior debt. Mr. MacDonald presented the board approval. This is the best opportunity for us to get anything; we really didn't have any choice.

The next agenda item was the review of pending loans, which there were none.

OLD BUSINESS / EXISTING LOAN REQUESTS

The next agenda item was the presentation of Old Business / Existing Loan Requests. The Loan Committee then entertained the request for a loan restructure relative to the PEDP loan to Broad Street Revitalization, LP (Community Works RI (CWRI) f/k/a Elmwood Foundation). Mr. MacDonald presented this request. Mr. MacDonald began by explaining that the original collateral for this loan was that PEDP was to get a mortgage on the four (4) commercial units. This did not happen because the Borrower did not form a condominium due to the administrative costs, as originally anticipated. PEDP was provided a fee interest in each of the condominium units as PEDP agreed to take a leasehold mortgage on the property. The Borrower does not have the money or cash flow to repay the loan. The Borrower proposed PEDP approval of monthly payments of

\$1,766.00, which would amortize the balance of the loan over forty (40) years at the current loan rate of four percent (4%). Mr. MacDonald's counter-proposal is for the acceptance of monthly payments in the amount of \$2,200.00, which would amortize the balance of the loan over thirty (30) years, at an annual rate of zero percent (0%). Mr. MacDonald stated that the loan rate reduction to no interest is the tricky part to his counter-proposal. It was questioned whether PEDP has ever reduced the loan interest rate to zero percent (0%) for this size loan and how may CDC's have received PEDP funding. It was also questioned whether PEDP could approve ten (10) years as opposed to thirty (30) upfront. Mr. MacDonald stated that five (5) years could also be approved and the committee could reassess the restructure every five (5) years. The goal of the restructure was questioned and Mr. MacDonald responded that the goal was to get the loan performing and to give the Borrower some relief. It was questioned whether the Borrower could afford the amended payment proposed by staff. It was also questioned whether the building is a mixed-use and whether it is rented. Mr. MacDonald responded that the property is a mixed-us and is now fully rented. Mr. Cuervo stated that he would entertain a motion to restructure the PEDP loan to Broad Street Revitalization. Upon a motion made by Donald Gralnek, and seconded by Doris Blanchard, the committee voted to recommend the approval of the restructure of this loan to a five (5) year term with a thirty (30) year amortization at an annual rate of zero percent (0%), with monthly loan payments in the amount of \$2,200.00. The loan will balloon in five (5) years. The existing collateral of a leasehold mortgage on the real estate is to remain in place and the expectation is that the loan will be refinanced with PEDP or another lender in five (5) years. Motion passed by unanimous vote. It was requested after the approval was granted that the leasehold mortgage needs to reviewed and approved by staff.

The next agenda item entertained by the Loan Committee was the request of Dr. Dennis Karambelas & Associates for the approval of a restructure of its loan. Mr. MacDonald presented the request. This loan is an existing short-term loan that matured. The loan term was twelve (12) months because PEDP was to be repaid upon the receipt of bank financing, which has fallen through. Borrower is requesting that the loan term be extended. The original loan payment was calculated with a seven (7) year amortization, therefore staff is asking for the loan to be extended by a seven (7) year term at the current annual rate of seven and one-half percent (7.5%). Borrower has not been making consistent monthly payments but has made several lump sum payments. Mr. MacDonald does not think that this is an unreasonable request. It was questioned whether the original loan is in compliance with the HUD regulations. Mr. MacDonald checked with staff and responded in the affirmative that the monitoring is done. Mr. MacDonald provided a brief overview of the job monitoring that is conducted to Mr. Gralnek, as a new member to the committee. Upon a motion made by Donald Gralnek and seconded by Frank Benell, it was voted to recommend that the restructure request of Dr. Dennis Karambelas & Associates be approved with the following terms: seven (7) year term at an annual rate of seven and one-half percent (7.5%). Should twelve (12) consecutive loan payments be made in a timely manner, PEDP will reduce the loan rate to six percent (6%) for the balance of the loan term. Motion passed by unanimous vote.

The next agenda item entertained by the Loan Committee was the request for the term extension of the IIP loans that have matured. Mr. MacDonald presented this request. The first round of IIP loans were granted with a two (2) year time limit on refinancing. The two (2) year period was an arbitrary number that PEDP assigned because we did not have any experience. Most of the companies have not converted yet and just need more time. It was questioned how many companies have converted to date to which Mr. MacDonald responded three (3) out of thirty-four (34) companies have converted. Two (2) requests for term extensions were received from Gorb (PJ Entertainment) and Revenizer, Inc. Mr. MacDonald stated that it would be wise to grant an

extension on the group of loans that matured in addition to the two (2) requests in the meeting package. Mr. MacDonald is requesting that the IIP expired loan terms be extended one (1) year. Upon a motion made by Donald Gralnek and seconded by Frank Benell, it was voted to recommend that the loan terms be extended for the IIP loans that have matured for twelve (12) months for all of the IIP loans that have matured. Motion passed by unanimous vote.

The next agenda item entertained by the Loan Committee was the request of Julian's Omnibus (The Bus, LLC) for the release of one of the personal guarantors of the PEDP loan. Mr. MacDonald requested that Mr. Hoagland present this request. There are three (3) personal guarantees have been pledged for this loan: Randy Kass, Brian Oakley and Jay Forgue. The Borrower is requesting that Jay Forgue be released as a personal guarantor. It was noted that Jay Forgue is the father of the operator of the business, Julian Forgue. The Borrower has indicated that Mr. Forgue desires to sell his interest to the remaining partners. It was questioned how the release of this personal guarantor affects PEDP's collateral coverage. Mr. MacDonald indicated that Mr. Forgue has a substantial net worth, but that there is adequate coverage with the remaining two (2) principals plus the pledge of The Bus. It was questioned whether the PEDP documents restrict additional/secondary financing to which it was responded in the affirmative. It was questioned whether the principals were pledging replacement/substitute collateral to which it was responded in the negative; the Borrower is solely requesting a release. Staff indicated that PEDP could ask for the pledge of a guaranty by the operator of the business, Julian Forgue. Upon a motion made by Doris Blanchard and seconded by Donald Gralnek, it was voted to recommend the support of the release of the above guarantor relative to the loan to Julian's Omnibus. It was then requested that staff come back to the committee with the assurances that the Borrower cannot sell without paying of the PEDP loan to which Kathy Cosentino responded that under the loan documents, the PEDP Borrowers cannot sell, transfer, convey, assign or otherwise dispose of the business or any collateral pledged as security, nor incur any indebtedness without prior written consent from PEDP.

OTHER BUSINESS

A motion to adjourn was then made by Frank Benell and seconded by Doris Blanchard, and the meeting was adjourned at 1:40 P.M.